

**TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE**



FISCAL NOTE

SB 3763 - HB 3761

March 7, 2012

SUMMARY OF BILL: Decreases, from 5.5 percent to 5.3 percent, the state sales tax rate on the retail sale of food and food ingredients. Requires any local option sales tax rate adopted by ordinance be set at a rate that is a multiple of twenty-five one-hundredths of one percent (or 0.25 percent).

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Net Impact - \$17,065,500

Increase Local Revenue – Net Impact – Exceeds \$410,200

According to the Department of Finance and Administration, the Division of Budget, the Governor's proposed budget for FY12-13 reflects a recurring decrease in state revenue to the General Fund of \$18,000,000 per year.


Assumptions:

- According to the Department of Revenue, state sales tax collections derived from food and food ingredients in FY10-11 were \$489,939,858.44.
- Based on historical growth rates for food sales, retail sales of food and food ingredients grow by two percent per year.
- Under current law, state sales tax collections derived from the retail sale of food and food ingredients is estimated to be \$509,733,429 ($\$489,939,858.44 \times 102.0\% \times 102.0\%$) for FY12-13.
- Under current law, taxable sales of food and food ingredients for FY12-13 are estimated to be \$9,267,880,527 ($\$509,733,429 / 5.5\%$).
- Under this bill, state sales tax collections derived from the retail sale of food and food ingredients is estimated to be \$491,197,668 ($\$9,267,880,527 \times 5.3\%$) for FY12-13.
- The decrease in state sales tax revenue attributable to the rate reduction is estimated to be \$18,535,761 ($\$509,733,429 - \$491,197,668$) for FY12-13. This number is assumed to remain constant in subsequent years.
- Pursuant to Tenn. Code Ann. § 67-6-103(a)(3)(A), local governments receive 4.5925 percent of all state sales tax revenue as state-shared sales tax revenue.
- Local governments are not held harmless from the loss of state-shared sales tax revenue.
- The recurring decrease in local revenue pursuant to the state-shared allocation is estimated to be \$851,255 ($\$18,535,761 \times 4.5925\%$).

- The net recurring decrease in state sales tax revenue attributable to the tax rate reduction on food and food ingredients is estimated to be \$17,684,506 (\$18,535,761 - \$851,255).
- Fifty percent of tax savings will be spent in the economy on other non-food sales-taxable goods and services.
- The current state sales tax rate levied on non-food sales-taxable goods and services is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent.
- The net recurring increase in state sales tax revenue as a result of 50 percent of tax savings being spent in the economy on other non-food sales-taxable goods and services is estimated to be \$618,958 $[(\$18,535,761 \times 50.0\% \times 7.0\%) - (\$18,535,761 \times 50.0\% \times 7.0\% \times 4.5925\%)]$.
- The recurring increase in state-shared sales tax revenue apportioned to local governments as a result of 50 percent of tax savings being spent on other non-food sales-taxable goods and services is estimated to be \$29,794 $(\$18,535,761 \times 50.0\% \times 7.0\% \times 4.5925\%)$.
- The total recurring increase in local revenue as a result of 50 percent of tax savings being spent on other non-food sales-taxable goods and services, which includes additional local option sales tax revenue and additional state-shared sales tax revenue, is estimated to be \$261,491 $[(\$18,535,761 \times 50.0\% \times 2.5\%) + \$29,794]$.
- The net recurring decrease in state revenue as a result of this bill is estimated to be \$17,065,548 $(\$17,684,506 - \$618,958)$.
- The net change to local option sales tax revenue as a result of local option sales tax rates being established in multiples of 0.25 percent is dependent upon several unknown factors such as the number of municipalities with local option sales tax rates which are not set in 0.25 percent increments, the decision by such local governments to either increase or decrease their applicable local option sales tax rates for the purpose of becoming compliant with this provision, and the extent of taxable sales occurring within such jurisdictions.
- Local governments with local option sales tax rates which are not set in 0.25 percent increments are assumed to increase their respective rate to the nearest multiple of 0.25 percent. Given this assumption, it is reasonably estimated that local revenue will increase by an unknown amount exceeding \$1,000,000 per year statewide.
- The net recurring increase in local revenue as a result of this bill is reasonably estimated to exceed \$410,236 $[(\$1,000,000 + \$261,491) - \$851,255]$.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Lucian D. Geise, Executive Director

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